MINUTES
ECONOMIC POLICY COUNCIL

August 7, 1985
1:30 p.m.
Cabinet Room

Attendees: The President, Messrs. Baker, Shultz, Weinberger, Meese, Block, Baldrige, Regan, Yeutter, McFarlane, Sprinkel, Wright, Darman, Kingon, McAllister, Porter, Buchanan, Oglesby, Rollins, Speakes, Svahn, Thomas, Chew, Dawson, Khedouri, Low, McMinn, Mulford, Robinson, Smart, Stucky, and Wallis, and Ms. Dole.

1. Trade Policy Strategy

Secretary Baker stated that the purpose of the meeting was to review with the President the progress of the Economic Policy Council in developing an Administration trade policy and strategy. He noted that trade policy is becoming the cutting issue of the 1980's, citing as evidence: the recent special Congressional election in Texas, where the single debate between candidates was dominated by the trade issue; the over 150 protectionist bills introduced in Congress; and the recent Governors Conference, in which there was much more interest in trade than in taxes and the Federal budget deficit.

Secretary Baker stated that those in Congress who disagree with our actions claim the Administration does not have a trade policy, a convenient and unwarranted charge. He explained to the President, however, that to improve our effectiveness in dealing with Congress, the Administration needs a better presentation and articulation of our trade policy. The Economic Policy Council is developing a trade statement and strategy, which should be completed by early September before Congress returns. He noted that this meeting is intended to identify for the President issues on which the Economic Policy Council has developed agreement, and issues where there is continued disagreement.

Secretary Baker outlined the major areas of agreement within the Economic Policy Council:

Macro-Economic Policies

1. The U.S. must recognize the adverse impact of excessive government spending and budget deficits, the recent strength of the dollar, and government regulations on the U.S. trade deficit.

2. The Administration is reviewing, and will seek to amend, if warranted, anti-trust laws or regulations that impede our international competitiveness.

3. The Administration will consider the trade implications when developing further deregulation initiatives. In some cases, deregulation may increase imports without creating new opportunities for U.S. exports.

Ensure Free Trade

1. The U.S. will vigorously pursue its trade interests under U.S. law, the GATT, and other appropriate international agreements. In addition, the U.S. will take tactical measures (e.g. those taken in the recent pasta/citrus dispute) aimed at eliminating unfair foreign trade practices.

2. The Administration will continue vigorous enforcement of U.S. antidumping and countervailing duty laws and will see that other countries live up to their trade agreement obligations with the U.S.

3. The Administration will increase efforts to protect intellectual property rights (patents, copyrights, trademarks); we will accelerate work with a view toward possible Administration initiatives in this area.

Promote U.S. Exports

1. The U.S. should seek to redress the trade deficit through increasing exports instead of restricting imports.

2. The Administration will work with private sector advisory groups (e.g., the President's Export Council) to improve export promotion and to help companies look at global markets.

3. The Administration will evaluate Federal export promotion activities during the fall budget review to improve their effectiveness.

Promote Multilateral and Bilateral Trade Negotiations

1. There is a great need for a more comprehensive, more disciplined and more effective system of world trade rules.

2. The Administration will maintain efforts to launch a new GATT round based on already agreed-upon U.S. objectives.

3. The Administration will examine possible bilateral and plurilateral negotiating opportunities, both to improve market access and fairer trade and promote wider interest in the multilateral negotiating process.

Limit Exceptions to Free Trade

1. The Administration is committed to market-based solutions to trade problems, at home and abroad, but occasional exceptions, in the form of relief from import competition may be necessary.

2. Import relief, if appropriate, should be temporary, decline over the period of relief, and lead to greater international competitiveness by the industry.

3. The Administration reserves the right to respond to foreign policies and imports that threaten industries essential to our long-term national security.

4. The Administration will vigorously enforce our export control laws to prevent the leakage of sensitive and critical technology of military significance to potential enemies. At the same time, the Administration recognizes the realities of foreign availability and the dependence of future technical advances on healthy, creative U.S. suppliers and free world exchange of scientific information.

Secretary Baker also outlined major areas of disagreement:

Macro-Economic Policy

1. How should the U.S. pursue our policy of encouraging trade partners to adopt appropriate policies designed to accelerate their real economic growth, in order to contribute to a gradual strengthening of their currencies and enhanced U.S. exports? Should the U.S. emphasize removing structural rigidities that impede the market? Should the U.S. promote convergent fiscal and monetary policies and, if so, in what forums?

2. Should the U.S. host a high-level meeting of the major industrial countries to review the issues in implementing the findings of the G-10 monetary studies, such as

improving the floating exchange rate system, or continue to rely on the Interim Committee as the forum for following up on the G-10 studies?

3. Should the U.S. seek to ease the debt burden of those countries carrying out successful adjustment in accordance with IMF programs, so as to increase their ability to increase imports?

Ensure Fair Trade

1. Should the U.S. Government initiate actions to address foreign unfair trade practices, or continue the current policy of responding only to requests by U.S. industries for actions to counter unfair practices?

2. If the U.S. Government initiates actions to address foreign unfair trade practices, should it focus on restricting access to the U.S. market or using "market-opening" leverage, e.g., threatening free trade agreements with other countries?

3. Should the Administration support market opening legislation that permits or requires the President to close U.S. markets if foreign markets are not opened?

4. Should the U.S. establish a deadline for ending the MOSS and yen/dollar talks, expecting such a deadline to serve as a catalyst for Japanese action?

5. Should the U.S. counter proven cases of foreign industrial targeting? What is targeting? Would such countering harm or help the U.S. economy?

6. How aggressively should the Administration match export subsidies by our competitors, while continuing to press for agreements eliminating such subsidies?

Limit Exceptions to Free Trade

1. Should the U.S. protect industries that are not or cannot be competitive under fair trade conditions?

2. Should the Administration modify the dislocated worker program in the Job Training Partnership Act (JTPA) to focus more resources on workers dislocated by imports?

Secretary Baker concluded by pointing out that much work remains to be done in developing a strategy for dealing with Congress, a strategy that might include a major Presidential speech in early September.

The President stated that the key to further trade liberalization is through more rounds of GATT. He pointed out that protectionists argue that the U.S. is losing jobs, yet in the past few years nine million new jobs have been created in the U.S., while our more protectionist trading partners have not expanded employment. He observed that the protectionist Smoot-Hawley legislation of 1930 had a devasting effect on employment.

The President noted that while U.S. products are too expensive as a result of the high value of the dollar, the dollar is declining gradually, which is the way the Administration wants it to come down. He stated that imports are bargains for the American consumers, and that the Government should not take these opportunities away from the consumer.

The President stated that our trade policy should be focused on correcting unfair trading practices of our trading partners and opening their markets by enforcing the laws we now have.

Secretary Baker stated that the Economic Policy Council is attempting to develop a strategy for pursuing a freer trade policy. He noted that the Council will discuss with the President in a few days whether to follow the International Trade Commission's recommendation for establishing worldwide quotas to protect the domestic nonrubber footwear industry. He noted that this action is not economically justified, but a decision must also be based on a tactical element: how will the President's decision on the footwear case affect protectionist sentiment and legislation on the Hill? He also raised the question of whether the President should self-initiate Section 301 investigations into unfair trading practices.

The Council discussion focused on the need for a better articulation of the Administration's trade policy and strategy, the value of a Presidential speech and the advisability of the President self initiating a Section 301 investigation into unfair trading practices. Several members of the Council stressed the importance of keeping our markets open, and opening foreign markets to our products.

Secretary Shultz stated that the Administration should not assume that the Congress is entirely protectionist; we have allies who support free trade. He also noted that the current trade deficit is not related to changes in trading rules and practices, and that we should not expect to correct the deficit through changes in trade laws. He cautioned about the dangers of self-initiating Section 301 actions and the possibility of our trading partners retaliating against our initiatives.

The Council discussion focused on the need to open foreign markets to U.S. goods and services and the possible means of doing so. Several members noted that the EC seems to respond more quickly to retaliatory action, as the pasta/ citrus case illustrates.

The Council also discussed the economic effect of the trade deficit: questioning whether it harms economic growth. Mr. Sprinkel noted that contrary to popular wisdom, the United States is not deindustrializing. In the current recovery, manufacturing is performing as well relative to services, as in other post-war recoveries.